

PT Waskita Karya Tbk (WSKT IJ)

Counting on Divestment Success

Company Update | July 14, 2020

Hold

Target Price (IDR)	820
Consensus Price (IDR)	792
TP to Consensus Price	+3.5%
vs. Last Price	+14.7%

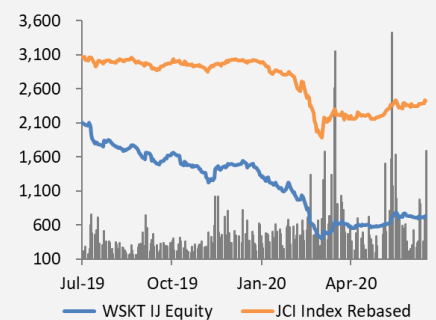
Shares data

Last Price (IDR)	715
Price Date as of	July, 13 2020
52 wk Range (Hi/Lo)	2,180/394
Free Float (%)	34.0
Outstanding sh. (mn)	13,574
Market Cap. (IDR bn)	9,909
Market Cap. (USD mn)	686.7
Avg. Trd Vol - 3M (mn)	53.7
Avg. Trd Val - 3M (bn)	36.1
Foreign Ownership	5.7%

Property

Construction	
Bloomberg	WSKT IJ
Reuters	WSKT.IK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-51.8%	-7.8%	16.9%	-62.2%
Rel. Ret.	-32.6%	-7.8%	7.2%	-42.2%

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WSKT opened the first quarter of 2020 with a decrease of 52% YoY in revenue and 94% YoY in profit so that it was recorded at IDR4.17 trillion and IDR43 billion respectively. The construction segment which fell 56% YoY became the hindrance. While booking positive operating cash flow of IDR2.8 trillion, WSKT is still trying to divest 4 toll road concessions in 2H20 to strengthen company cash flow. Due to possibility of the pandemic causing economic downturn, we revise WSKT's revenue and profit estimation, and downgrading our recommendation from Buy to Hold with target price of IDR820.

Decreased Revenue in Construction Suppresses Profit

WSKT recorded 1Q20 revenue of IDR4.17 trillion, down 52% YoY (vs IDR8.68 trillion 1Q19), but still managed to maintain stability of the COGS so that gross margin was recorded at 20% or equal to 1Q19. The 56% YoY decrease in construction segment revenue to IDR3.57 trillion contributed to the 1Q20 revenue growth laggard. Even though financial expenses fell 6% YoY to IDR701 billion, the low EBIT still resulted in EBT margin falling 1% following a 94% YoY decline in profit to IDR43 billion (vs IDR716 billion 1Q19), pushing away from our estimated 1Q20 profit of IDR261 billion (-83.6%).

Positive Operating Cash Flow due to Turnkey Project Payment

After historically recording negative OCF throughout the first quarter, operating cash flow in 1Q20 booked a surplus of IDR2.8 trillion. Receipt from customers amounted to IDR9.5 trillion, with IDR6.9 trillion coming from payment for Japek Elevated II, Kunciran-Parigi and Salatiga-Kartasura toll roads. On the other hand, a new 1Q20 contract has successfully been achieved with around IDR3.16 trillion (-24 YoY) with 76.2% coming from the business development segment, which are the Pasuruan-Probolinggo section 4 and UIN Jambi. Although part of the APBN funds was diverted to handle Covid-19 cases, the government and SOE's contribution to the new contract was 23.8%, higher than 1Q19 of 12.88%.

Divestment Plan to Maintain Cash Flow

WSKT in 2H20 plans to divest four toll roads namely Bekasi-Cawang-Kampung Melayu (Becakayu) Toll Road, Kanci-Pejagan Toll Road, Pejagan-Pemalang Toll Road and sell a portion of ownership in the Cibitung-Cilincing Toll Road. In 2020, WSKT is targeting to receive fresh funds from the turnkey project in the range of IDR10-11 trillion. We hope that the divestment can be realized in order to strengthen the balance sheet and cash flow. DER in 1Q20 was 2.38x which is still stable compared to 1Q19 and 4Q19 (2.36x and 2.38x), but was among the highest compared to other SOE's construction companies. Our opinion is that WSKT must be able to control its debt level even though it is still far from the company's DER limit at 3x, as the weakening economic conditions during this pandemic have caused WSKT to set alarms and limits on the amount of debt.

Downgrade to Hold recommendation with TP IDR820

As a result of the Covid-19 pandemic and the assumption of an economic slowdown that could be followed by a reduction in allocation for construction sector in the state budget, we revised down the WSKT revenue and profit target for FY20 to IDR20.97 trillion (-47.1%) and IDR530 billion (-59.7%), also for the FY21 forecast to be IDR19.78 trillion (-56.5%) and Rp427 billion (-68.4%). Assuming the government in 2020 will focus more on solving the Covid-19 case handling, we revised down the achievement of the new FY20 contract to Rp21.37 trillion (-18% YoY). Based on this, we lowered the recommendation from Buy to Hold and revised down the price target to IDR820 from IDR960 based on a 26.2x (+0.5 SD) forward P/E with a potential upside of around 14.7%.

Waskita Karya Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue	31,387	20,978	19,788	20,452
Growth (%)	-35.7%	-33.2%	-5.7%	3.4%
EBITDA	4,748	3,250	3,618	3,319
Net Profit	938	530	427	525
EPS (IDR)	69	39	31	39
Growth (%)	-76.3%	-43.5%	-19.6%	23.0%
P/E	10.7x	21.0x	26.1x	21.2x
P/BV	0.3x	0.4x	0.4x	0.4x
EV/EBITDA	14.8x	23.1x	21.7x	24.7x
ROE (%)	3.2%	1.9%	1.5%	1.9%
DER (%)	238%	263%	270%	277%
NPM (%)	3.0%	2.5%	2.2%	2.6%

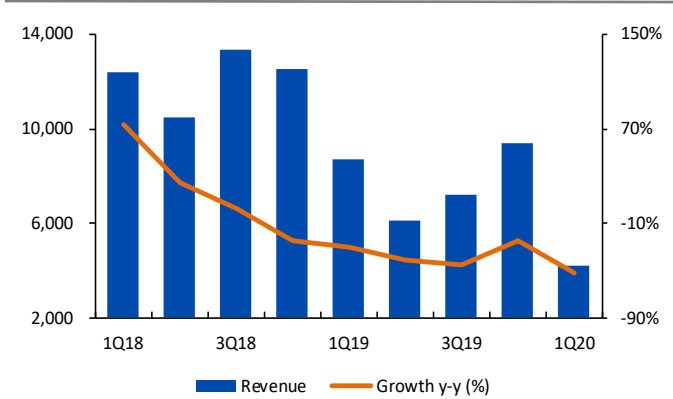
Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKSI Research

Please consider the rating criteria & important disclaimer

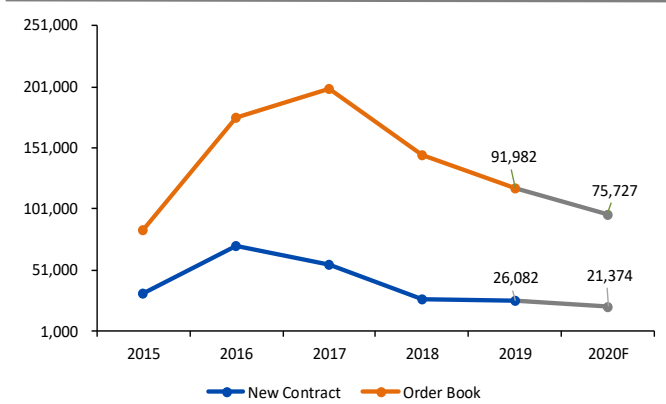
Performance Highlights in Charts

WSKT Quarterly Revenue (IDR bn) | 1Q18 - 1Q20



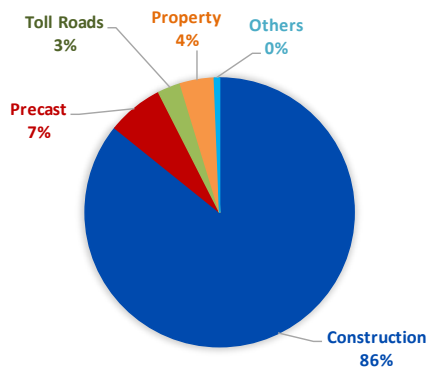
Source: Company Data, NHKSI Research

WSKT Order Book & New Contract



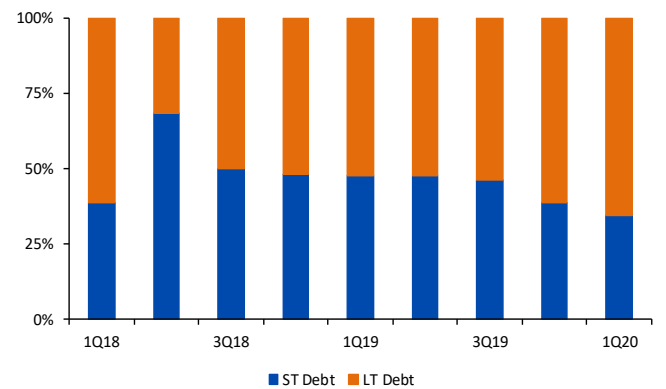
Source: Company Data, NHKSI Research

1Q20's Revenue Breakdown



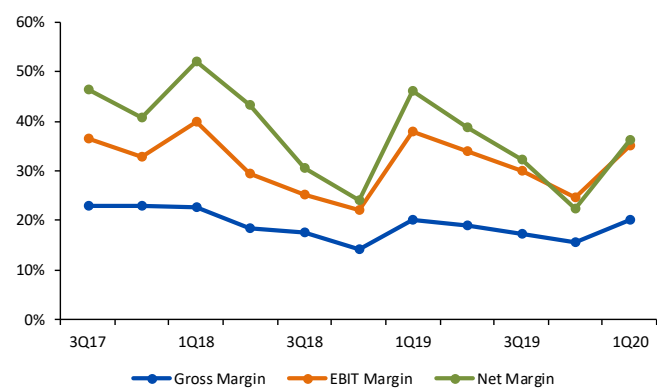
Source: Company Data, NHKSI Research

Debt Portion



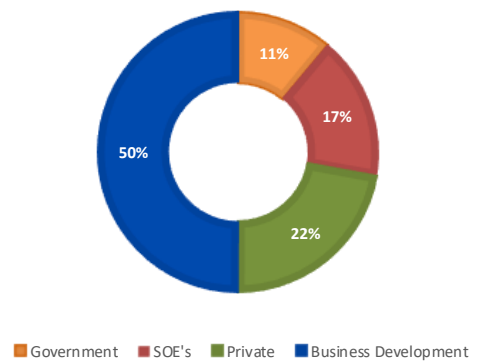
Source: Company Data, NHKSI Research

Margin Ratios



Source: Company Data, NHKSI Research

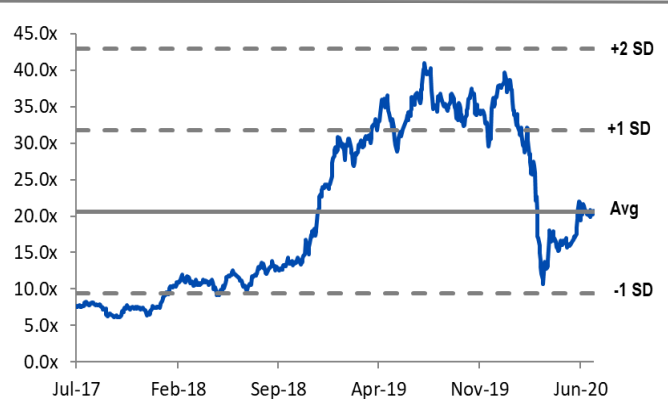
1Q20's Order Book Segmentation



Source: Company Data, NHKSI Research

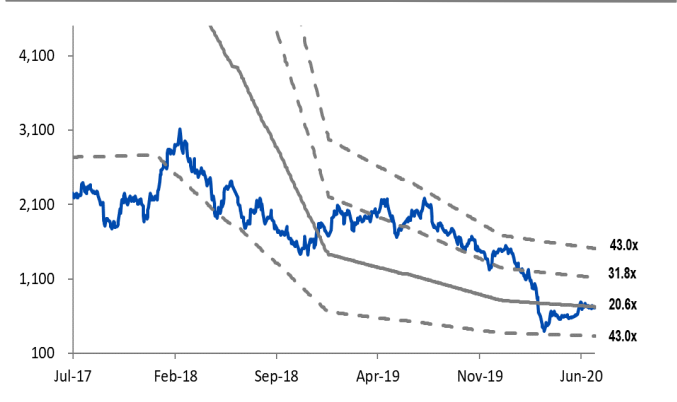
Valuation Highlights in Charts

3-Year Forward P/E Band



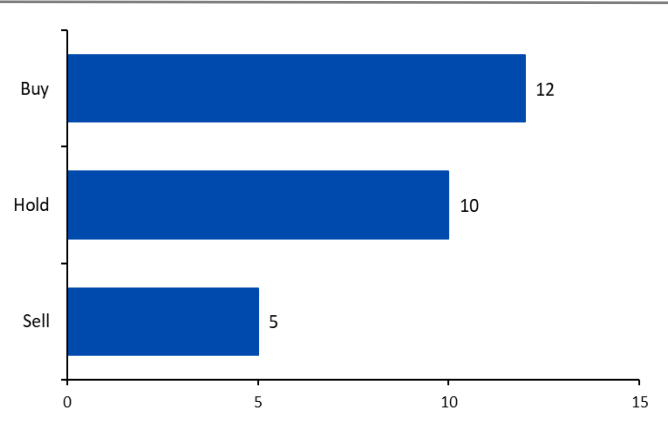
Source: Bloomberg, NHKSI Research

3-Year Discount to NAV Band



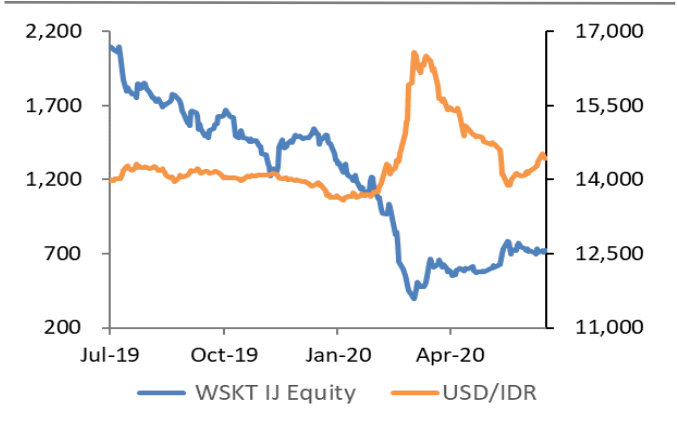
Source: Bloomberg, NHKSI Research

Analysts' Recommendation



Source: Bloomberg, NHKSI Research

Correlation between WSKT and USD/IDR



Source: Bloomberg, NHKSI Research

Quarterly Review

	1Q19	2Q19	3Q19	4Q19	1Q20					2Q20E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
Income statement										
Revenue	8,682	6,113	7,220	9,372	4,170	6,905	-52.0%	-55.5%	-39.6%	3,166
Gross Profit	1,749	1,165	1,242	1,448	837	1,463	-52.2%	-42.2%	-42.8%	506
EBIT	1,538	917	926	852	626	1,197	-59.3%	-26.5%	-47.7%	305
EBITDA	1,679	953	1,128	970	789	1,366	-53.5%	-18.6%	-42.2%	479
Net Profit	716	282	153	-212	43	261	-94.0%	-120.1%	-83.6%	48
Margin (%)										
Gross Margin	20.1%	19.1%	17.2%	15.5%	20.1%	21.2%	-0.1%	4.6%	-5.3%	16.0%
EBIT Margin	17.7%	15.0%	12.8%	9.1%	15.0%	17.3%	-2.7%	5.9%	-13.4%	9.6%
EBITDA Margin	19.5%	15.6%	15.6%	10.3%	18.9%	19.8%	-0.6%	8.6%	-4.4%	15.1%
Net Profit Margin	8.2%	4.6%	2.1%	-2.3%	1.0%	3.8%	-7.2%	3.3%	-72.9%	1.5%

Unit: IDR bn, %

Source: Company Data, NHKSI Research

Revisions to Earnings

		2020F	2021F	2022F
Income Statement				
Revenue	-Revised	20,979	19,788	20,452
	-Previous	39,656	45,459	48,336
	-Change	-47.1%	-56.5%	-57.7%
Gross Profit	-Revised	3,806	3,732	3,844
	-Previous	7,204	8,377	8,948
	-Change	-46.4%	-55.5%	-57.0%
EBIT	-Revised	2,480	2,648	2,612
	-Previous	4,759	5,826	6,137
	-Change	-47.9%	-54.5%	-57.4%
EBITDA	-Revised	3,250	3,618	3,319
	-Previous	5,566	6,938	7,134
	-Change	-41.6%	-47.9%	-53.5%
Net Profit	-Revised	530	427	525
	-Previous	1,317	1,349	1,597
	-Change	-59.7%	-68.4%	-67.1%
Margin				
Gross Margin	-Revised	18.4%	18.9%	18.8%
	-Previous	18.2%	18.4%	18.5%
EBIT Margin	-Revised	11.8%	13.4%	12.8%
	-Previous	12.0%	12.8%	12.7%
EBITDA Margin	-Revised	15.5%	18.3%	16.2%
	-Previous	14.0%	15.3%	14.8%
Net Profit Margin	-Revised	2.5%	2.2%	2.6%
	-Previous	3.3%	3.0%	3.3%

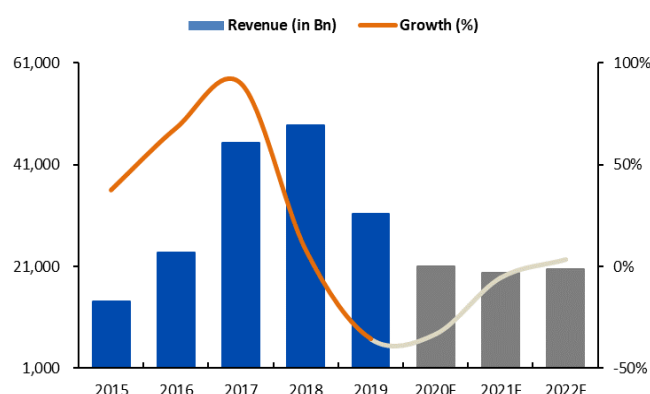
Unit: IDR bn, %

Source: Company Data, NHKSI Research

Company Overview

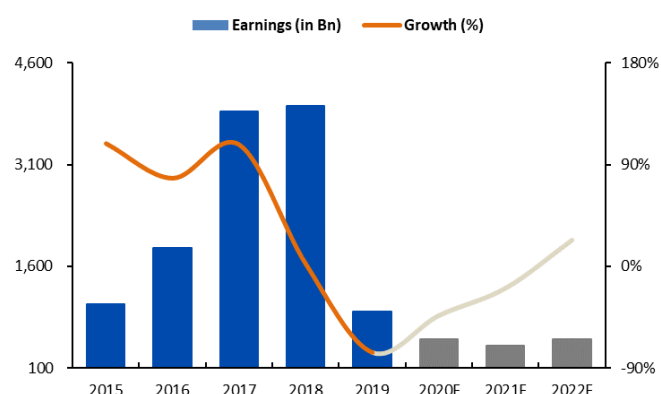
- PT Waskita Karya Tbk (WSKT) is a construction company established on January 1, 1961. WSKT changed its legal entity into “Persero” since 1961 and was listed on Indonesia Stock Exchange (IDX) in December 2012.
- The Indonesia Government is WSKT’s major stockholder with 64.04% stock ownership, while 33.96% of stock ownership is owned by the public.
- WSKT whose headquarters is in Jakarta has four subsidiaries, namely PT Waskita Beton Precast Tbk, PT Waskita Toll Road, PT Waskita Karya Realty, and PT Waskita Karya Infrastruktur.
- WSKT runs five business lines, covering construction, toll roads, precast, realty, and energy.
- WSKT in 2019 worked on some prestigious projects: Prabumulih—Muara Enim toll road, renovation of Istiqlal Mosque, development of Juanda airport, and development of Leuwikeris dam.

Revenue and Growth Movement



Source: Company Data, NHKSI Research

Earnings and Growth Movement



Source: Company Data, NHKSI Research

Analysis of Asia-Pacific Peers

	Market Cap (USD mn)	Asset (USD mn)	Sales (LTM) (USD mn)	Net Profit (LTM) (USD mn)	Net Profit Growth (LTM)	Net Profit Margin	ROE (LTM)	EV/EBITDA (LTM)	P/BV
Indonesia									
PT WASKITA KARYA PERSERO TBK	687	8,853	1,896	19	-91.6%	1.0%	1.5%	20.0x	0.6x
PT PP PERSERO TBK	430	4,019	1,631	54	-49.4%	3.3%	6.5%	8.6x	0.6x
PT WIJAYA KARYA PERSERO TBK	765	4,486	1,759	148	13.7%	8.4%	14.3%	7.0x	0.8x
PT ADHI KARYA PERSERO TBK	158	2,637	1,133	43	-6.7%	3.8%	10.1%	9.1x	0.4x
Thailand									
CH. KARNCHANG PUBLIC CO LTD	1,062	2,775	675	42	-48.6%	6.3%	5.1%	152.6x	1.3x
SINO THAI ENGR & CONSTR PCL	773	1,654	1,125	44	-19.1%	3.9%	11.0%	7.1x	1.9x
UNIQUE ENGINEERING & CON PCL	185	1,103	378	23	-12.2%	6.0%	9.1%	6.5x	0.7x
Philippines									
MEGAWIDE CONSTRUCTION CORP	296	1,593	416	17	-29.3%	4.0%	4.1%	20.6x	1.1x
EEI CORPORATION	114	553	454	19	71.1%	4.2%	12.0%	6.6x	0.7x
HOUSE OF INVESTMENTS	53	1,026	661	16	-10.9%	2.4%	5.8%	7.5x	0.2x
Vietnam									
FLC FAROS CONSTRUCTION JSC	73	460	206	7	-28.1%	3.2%	2.6%	16.6x	0.3x
HO CHI MINH CITY INFRASTRUCT	187	1,262	74	19	412.6%	26.1%	8.5%	36.0x	0.8x
HOA BINH CONSTRUCTION GROUP	107	722	746	13	-50.7%	1.7%	9.4%	8.3x	0.7x
Malaysia									
GAMUDA BHD	2,069	4,172	1,013	137	37.5%	13.6%	6.9%	20.8x	1.0x
IJM CORP BHD	1,515	5,435	1,586	60	-40.2%	3.8%	2.6%	10.4x	0.7x
SUNWAY CONSTRUCTION GROUP BHD	565	466	407	28	-17.9%	6.8%	18.2%	11.9x	3.8x

Unit: USD mn, %, X

Source: Bloomberg, NHKSI Research

Summary of Financials

INCOME STATEMENT

In IDR bn	2019/12A	2020/12E	2021/12E	2022/12E
Revenue	31,387	20,978	19,788	20,452
Growth (% y/y)	-35.7%	-33.2%	-5.7%	3.4%
Cost of Revenue	(25,783)	(17,118)	(16,057)	(16,608)
Gross Profit	5,605	3,860	3,732	3,844
Gross Margin	17.9%	18.4%	18.9%	18.8%
Operating Expenses	(1,372)	(1,380)	(1,083)	(1,233)
EBIT	4,233	2,480	2,648	2,612
EBIT Margin	13.5%	11.8%	13.4%	12.8%
Depreciation	515	770	969	708
EBITDA	4,748	3,250	3,618	3,319
EBITDA Margin	15.1%	15.5%	18.3%	16.2%
Interest Expenses	(3,621)	(2,764)	(2,635)	(2,486)
EBT	1,329	651	570	702
Income Tax	(300)	(154)	(119)	(147)
Minority Interest	(91)	34	(24)	(30)
Net Profit	938	530	427	525
Growth (% y/y)	-76.3%	-43.5%	-19.6%	23.0%
Net Profit Margin	3.0%	2.5%	2.2%	2.6%

PROFITABILITY & STABILITY

	2019/12A	2020/12E	2021/12E	2022/12E
ROE	3.2%	1.9%	1.5%	1.9%
ROA	0.8%	0.4%	0.3%	0.4%
ROIC	3.3%	1.9%	2.0%	1.9%
Cash Dividend (IDR bn)	991	235	133	112
Dividend Yield (%)	9.9%	2.1%	1.2%	1.0%
Payout Ratio (%)	106%	44%	31%	21%
DER	238%	263%	270%	277%
Net Gearing	598%	720%	726%	728%
LT Debt to Equity	145%	147%	152%	156%
Capitalization Ratio	70%	72%	73%	73%
Equity Ratio	24%	22%	22%	21%
Debt Ratio	57%	58%	58%	57%
Financial Leverage	426%	435%	457%	475%
Current Ratio	109%	87%	80%	75%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	13,574	13,574	13,574	13,574
Share Price (IDR)	740	820	820	820
Market Cap (IDR tn)	10.0	11.1	11.1	11.1

BALANCE SHEET

In IDR bn	2019/12A	2020/12E	2021/12E	2022/12E
Cash	9,258	8,404	7,695	7,285
Receivables	3,556	2,341	2,749	2,512
Inventories	4,471	4,476	2,697	5,352
Total Current Assets	49,038	43,612	43,640	45,818
Net Fixed Assets	8,663	11,633	14,625	18,605
Other Non Current Assets	64,888	68,636	70,199	72,560
Total Assets	122,589	123,882	128,464	136,983
Payables	12,381	13,206	10,795	10,406
ST Debt	26,993	31,867	32,766	34,161
LT Debt	42,286	40,370	42,147	43,942
Total Liabilities	93,471	96,371	100,744	108,779
Capital Stock + APIC	6,909	6,909	6,909	6,909
Retained Earnings	10,233	8,671	8,965	9,377
Shareholders' Equity	29,118	27,511	27,720	28,205

VALUATION INDEX

	2019/12A	2020/12E	2021/12E	2022/12E
Price /Earnings	10.7x	21.0x	26.1x	21.2x
Price /Book Value	0.3x	0.4x	0.4x	0.4x
Price/Revenue	0.3x	0.5x	0.6x	0.5x
PE/EPS Growth	-0.1x	-0.5x	-1.3x	0.9x
EV/EBITDA	14.8x	23.1x	21.7x	24.7x
EV/EBIT	16.6x	30.2x	29.6x	31.4x
EV (IDR bn)	70,065	74,964	78,347	81,948
Revenue CAGR (3-Yr)	9.7%	-22.6%	-26.0%	-13.3%
EPS CAGR (3-Yr)	-20.5%	-48.5%	-52.4%	-17.6%
Basic EPS (IDR)	69	39	31	39
Diluted EPS (IDR)	69	39	31	39
BVPS (IDR)	2,145	2,027	2,042	2,078
Revenue PS (IDR)	2,312	1,545	1,458	1,507
DPS (IDR)	73	17.28	10	8

CASH FLOW STATEMENT

In IDR bn	2019/12A	2020/12E	2021/12E	2022/12E
Operating Cash Flow	5,371	3,415	4,406	3,690
Investing Cash Flow	(14,925)	(5,857)	(7,571)	(7,251)
Financing Cash Flow	7,978	1,569	2,456	3,150
Net Changes in Cash	(1,576)	(873)	(709)	(410)

OWNERSHIP

By Geography	% Shareholders	%	
Indonesia	94.3	Republic of Indonesia	66.0
United States	4.4	Dimensional Fund Adv	1.1
Norway	0.7	Vanguard Group	1.0
United Kingdom	0.2	BlackRock Inc	0.6

Source: Company Data, NHKSI Research

Closing and Target Price Update



Source: Bloomberg, NHKSI Research

Rating and Target Price Update

Date	Rating	Target Price	Consensus
26-04-2017	Buy	IDR3.670	IDR3.308
08-02-2017	Buy	IDR.240	IDR3.207
15-04-2020	Buy	IDR960	IDR1.192
14-07-2020	Hold	IDR820	IDR792

Source: NHKSI Research

NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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